

February 27, 2006

Mr. Richard Krolak
Chief, CalPERS Office of Long Term Care
400 P Street, 5th floor
Sacramento, CA 95814

Subject: Immediate Action Items from February 6th Advisory Group Meeting

Dear Mr. Krolak:

The purpose of this document is to present recommendations/conclusions and relevant supporting information relating to the following immediate action items from the February 6th Advisory Group meeting:

- Opine regarding whether or not a 2006 enrollment period should occur using the same product offering and rates as were used in the 2005 product offering.
- Provide estimates of the impact of delaying the recommended 20% mitigation impact either one year or two years.

This information is presented in the following sections.

Opinion Regarding 2006 Enrollment Period

Recommendation: Proceed with the 2006 enrollment period using the 2005 product offering and rates without revision.

Discussion: Please note that we were already in the process of testing the rates from the 2005 product offering using assumed 2005 valuation morbidity when we were asked to do so by the Advisory Group.

Given the timeframes we were facing and the fact that Long Term Care Group's actuarial department (LTCG) had developed the 2005 product offering and rates (and, therefore, already had models for them), we thought it would be most efficient from both a timing and cost standpoint if we had LTCG update their work to include/reflect the assumed 2005 valuation morbidity.

Based on this analysis, and assuming distributions of new sales for the 2006 enrollment period consistent with those experienced in the 2005 enrollment period, we would expect that utilizing the 2005 product offering and rates for the 2006 enrollment period would lead to projected financial results somewhere between break-even and a reasonable aggregate contribution to surplus. Please note that we would expect results to vary by projection cell, and that we would actually expect surplus drain for one or more cells; so, there would be some distribution risk associated with this recommendation; however, there is no reason to believe that distributions of business from a 2006 enrollment period would be different than those associated with the 2005 enrollment period.

While I believe we have taken a reasonable approach to reviewing this issue, I would have preferred to do a more thorough, independent analysis; however, given the timeframes we were under, taking that approach was not feasible.

One additional thought to consider – while the projection results referenced above may appear reasonable in the aggregate (hence the recommendation to proceed), we could consider beginning to address the risk-related issues associated with this program and sending a preliminary message to the appropriate audience(s) by discontinuing certain higher risk product offerings; for example, limiting maximum daily benefit amounts to \$200/day.

Impact of Delaying Recommended Rate Increase

As you know, the projection results for Scenario A(3) presented in the 6/30/05 valuation report were utilized for financial reporting purposes. As such, that scenario has come to be considered the “baseline scenario” when discussing possible mitigation actions.

The starting point projection scenario for incorporating the proposed mitigation action(s) is Scenario A(3) (referenced above) revised to reflect an aggregate mitigation impact consistent with a 20% premium increase effective 7/1/06.

The following is a summary of projected financial deficits for the program for the above-referenced scenarios along with two other scenarios:

Baseline Scenario:	\$812.86 MM
Baseline + 20% Mitigation Impact Implemented 7/1/06:	\$449.66 MM
Baseline + 20% Mitigation Impact Implemented 7/1/07:	\$491.24 MM
Baseline + 20% Mitigation Impact Implemented 7/1/08:	\$528.52 MM

Based on these results, the cost of delaying the proposed mitigation impact one year would be approximately \$41.58 MM (i.e., 2.05% of the present value of future premiums), and the cost of doing so for two years would be \$78.86 MM (i.e., 3.95% of the present value of future premiums).

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Please note that all numeric values presented in this section are as of 6/30/05.

Conclusion

This is not meant to serve as complete actuarial documentation. Additional data/information is available and could be provided upon request.

All caveats that apply to the 6/30/05 valuation report would apply to this as well.

Please feel free to contact me with questions/comments regarding anything presented to date at (317)575-7672 or via e-mail at kvolkmar@uhasinc.com.

Sincerely,

Karl G. Volkmar, FSA, MAAA, FCA
Consulting Actuary